AIRFINANCE JOURNAL

Exclusive: Private equity closes on AMCK acquisition

Laura Mueller

22/11/2021

Carlyle Aviation Partners is in advanced talks to purchase Hong Kong-based lessor AMCK just three months after completing the purchase of Fly Leasing, sources indicate.

The acquisition is subject to due diligence, sources add.

The news comes on the heels of SMBC Aviation Capital's anticipated purchase of Goshawk Aviation, which was exclusively revealed by *Airfinance Journal* on 19 November.

Neither AMCK nor Carlyle was available at press time.

The moves follow Aercap's takeover of GECAS, which closed on 1 November. That combination of entities represents 2,196 commercial aircraft or 37.5% of the top 10 lessors.

What this recent activity demonstrates is the growing importance of scale and firepower in making crucial investments in a post-Covid leasing market.

On *Airfinance Journal's* latest podcast, 'Will Aviation Transition from Red to Black to Green', the question is asked whether lessors will transition from more traditional business models, such as the Aercap style, to general partnerships, or the Carlyle way of business.

The transition is prompted by higher returns associated with a general partner-style of business, banking sources suggest.

"Where I think your sources may be onto something is that, if the money coming into the industry lowers its return expectations so that it aligns with what is available in the market, then there could be an opportunity for that money to deploy. Lessors already have the platform and the expertise and the teams in place," said Andy Mansell, partner at Splitrock Aviation, speaking on the podcast.

"In market feedback I have been receiving…target returns, based on people I have spoken to, is 4%, so if you end up with volumes of liquidity that are targeting returns in that sort of space, it would be a logical step for lessors to try and boost their otherwise mediocre returns by deploying other people's money… for me, the key is the lowering of the return expectation of the incoming money."

One lessor C-suite source says the change in lessor ownership this year is simply a refinement of strategy for certain lessors.

However, bank and OEM sources indicate consolidation is underway for Chinese lessors, beginning with the smaller, less well-known entities.

A change in shareholding recently took place at AMCK.

In early November, CK Asset Holdings acquired Mitsubishi's stake in AMCK Aviation, taking its share of the leasing company from 50% to 90%.

The remaining 10% is owned by the Li Ka-Shing (Overseas) Foundation.

According to Fleet Tracker, AMCK has a fleet of 151 units with its greatest exposure to Airbus A320 (95) and Boeing 737 Next Generation (38) aircraft.

AMCK Aviation was created on 30 October 2019 by the merger of Accipiter and MCAP.

At the time, Mitsubishi held 40% of AMCK Aviation.

Headquartered in Dublin, Ireland, AMCK Aviation has regional offices in Tokyo, Japan and Irvine, USA.

The lessor says on its website that its shareholders are discerning, and AMCK's business model reflects its strategic goals and ambitions.

Size and scale

Carlyle Aviation is the commercial aviation investment and servicing arm within Carlyle's $61 billion global credit platform.

According to Fleet Tracker, the lessor has a fleet of 315 units. Similar to AMCK, its largest exposure is to Boeing 737NG (139) and Airbus A320 (70) aircraft.

It signed an agreement to acquire Fly Leasing in March.

Fly shareholders received $17.05 per share in cash, representing a total valuation of approximately $520 million.

The enterprise value of the transaction totalled $2.36 billion.

The 84-aircraft fleet and seven engines will continue to be managed by BBAM for a period of time under a sub-servicing agreement.

However, BBAM's role as Fly Leasing's manager terminated at the closing of the purchase.

In March, Joe Donovan, chairman of the board of directors of Fly Leasing, told *Airfinance Journal* that frustration with public markets led to the sale.

Fly Leasing had been trading at less than 50% to book value. Based in Dun Laoghaire, Ireland, the lessor went public at $23.00 per share in 2007.

"It was the realisation that we were probably too small to be an efficient public company. We traded at a significant discount to our NBV [net book value], so we could not economically raise new equity. And so, it became a liquidity event. Covid accentuated some of the trading difficulties we've had, but it by no means was the reason for the sale," he said.

Fly Leasing started life as a high dividend pay-out model before hitting the headwinds of the 2008 global recession. In 2015, Fly decided to eliminate its dividend and implemented a share repurchase programme to provide liquidity to shareholders.

Even though Fly improved the portfolio metrics and harvested gains from the sale of aircraft, Donovan said the public markets continued to trade the stock at a significant discount to NBV.

According to Fleet Tracker, in second place following Aercap, is Avolon, with 531 owned aircraft, or roughly 10% of the top 10 lessors.

With talk of two merger and acquisition deals in just one week, the question now is: which lessors are next to join the activity?

